Members of the Homeowners Protection Plan Joint Powers Authority,

I write to comment on the JPA's agenda for the meeting of January 24 and to urge the members to issue the Request for Qualifications for homeownership protection described in agenda item 3.

The Need for the RFQ and an Independent Advisor - Agenda item 4 proposes a cooperation agreement between the JPA and mortgage industry participants providing for sharing public information and attempting to improve utilization of existing mortgage relief programs. This can be a positive first step for dealing with loans within banks' own portfolios. However, it cannot do *anything* meaningful to assist county residents whose mortgages are locked up in private securitization trusts, because the structure of these trusts prevents any effective access to these programs. Therefore I urge the JPA to issue the RFQ to engage an advisor that is independent of the mortgage industry to advise on ways to assist residents with privately securitized loans. Mortgage Resolution Partners would respond with a proposal that focuses on the following critical features of a program that can provide meaningful homeowner protection for those loans.

Principal Reduction Is Necessary But Not Currently Available - Many years of trial and error have shown that reducing principal on underwater loans is the single most effective way to prevent defaults and foreclosures -- far better than other methods like reducing interest rates. Economists and government officials alike agree that principal should be reduced when it reaches insurmountable levels.

"It is now widely appreciated that principal write-downs will have to be done on a broad swath of underwater mortgage loans. *Debt* loss must be formally recognized in a manner commensurate with fair-value-accounted *equity* loss. For write-downs are better than defaults, which plague underwater mortgages at ominously high rates – Indeed for much underwater mortgage debt, principal write-downs actually *maximize value*. We find evidence for this in the rates at which portfolio mortgage loan holders, as distinguished crucially from securitization trusts, write down debt."[1]

Principal reduction benefits the entire community by preventing defaults and foreclosures. Yet private securitization trusts severely limit or forbid principal reductions, making existing mortgage relief programs ineffective for borrowers. The county must go beyond cooperation with existing mortgage industry participants in order to keep these borrowers in their homes.

Toxic Mortgages – Fannie Mae forecasts that 50% of the four million loans in private label securitizations ("PLS," about 10% of all loans but about 35% of all near-term foreclosures) will default and that losses given default will be 65% of the loans' balances.

---

[1] Paying Paul and Robbing No One: An Eminent Domain Solution for Underwater Mortgage Debt That Can Benefit Literally Everyone, Robert C. Hockett, Cornell Law School

[2] Fannie Mae 10Q, Q3 2012

[3] http://www.sifma.org/news/news.aspx?id=8912.

We believe *some of these loans*, not all, are worth less than the value of the home securing them and therefore may be eligible for principal reduction that can prevent foreclosures. Fannie Mae's analysis is done at the loan level and recognizes recent and future improvements in home values. PLS loans are uniquely structured, making standard methods of principal reduction, including refinance and modification, extremely difficult if not impossible. We advise our clients target these homeowners for help and thereby provide relief to cities and neighboring homeowners.

The Future of Loans in Private Label Securities

Source: Fannie Mae 10-Q, September 2012

	Subprime	Option ARM	Fixed Rate	Variable	Hybrid Rate
Future Foreclosures	72%	58%	21%	53%	29%
Future Losses	72%	61%	55%	56%	46%

Foreclosures are Costly For City Governments and Neighbors - According to the US Department of Housing and Urban Development the average foreclosure costs the city Government where the home is located $19,277 in lost revenues and expenses. The same HUD study tells us that the cost to the nine adjacent neighbors is $14,235. Preventing costs to the community is the only reason that cities should be involved in preventing foreclosures. Saving a homeowner from foreclosure, as worthy a goal as it may be, is not in and of itself a reason for a city to act. MRP's advice is that a city or county act if a clear public benefit can be demonstrated.

Benefits of Principal Reduction - This table demonstrates the effect of principal reduction on an underwater PLS homeowner.

	In 2007	**Today**	**After Program**
Home Value	$400,000	$200,000	$200,000
Mortgage Balance	$320,000	300,000	$190,000
Home Equity	$80,000	($100,000)	$10,000
Monthly Payment	$1,798	$1,798	$907

This table assumes a 6%, 30 year, fully amortizing mortgage is refinanced by a 4%, 30 year, fully amortizing mortgage. Some loan programs may also require insurance, which may add $175 per to the After Program monthly payment. Many underwater PLS mortgages have been modified to lower interest rates, but in nearly every case these lower rates will expire and homeowner's payments will increase.

59,000 PLS Loans in San Bernardino County, 42,000 are underwater – This table shows the extent of the problem in the 20 most exposed cities in San Bernardino County, California. In addition, there are approximately 1,800 underwater PLS loans in the unincorporated areas of the County. Notice that in many cities about 50% of forecasted future foreclosures are already delinquent. *Quick action to prevent these delinquent loans from becoming foreclosed families and avoid the tremendous cost to the community is critical. Time is not on the side of communities.*

City	PLS Loans	Forecasted Future PLS Foreclosures	PLS Loans Underwater	% of PLS Loans Underwater	PLS Loans Underwater and Current	PLS Loans Underwater and Delinquent	% Underwater PLS Delinquent
FONTANA	7,173	3,587	5,428	76%	3,506	1,922	35%
SAN BERNARDINO	5,437	2,719	4,350	80%	2,919	1,431	33%
RANCHO CUCAMONGA	5,795	2,898	3,689	64%	2,505	1,184	32%
VICTORVILLE	3,493	1,747	2,898	83%	1,863	1,035	36%
ONTARIO	4,087	2,044	2,760	68%	1,818	942	34%
HESPERIA	3,621	1,811	2,426	67%	1,574	852	35%
RIALTO	2,974	1,487	2,147	72%	1,387	760	35%
APPLE VALLEY	2,348	1,174	1,913	81%	1,269	644	34%
CHINO	2,412	1,206	1,611	67%	1,114	497	31%
CHINO HILLS	2,659	1,330	1,380	52%	967	413	30%
UPLAND	2,244	1,122	1,305	58%	906	399	31%
HIGHLAND	1,572	786	1,189	76%	846	343	29%
REDLANDS	1,848	924	1,153	62%	808	345	30%
YUCAIPA	1,502	751	1,090	73%	780	310	28%
COLTON	1,375	688	1,029	75%	695	334	32%
ADELANTO	832	416	722	87%	421	301	42%
BLOOMINGTON	815	408	620	76%	427	193	31%
MONTCLAIR	884	442	571	65%	379	192	34%
YUCCA VALLEY	755	378	571	76%	392	179	31%
BARSTOW	689	345	550	80%	381	169	31%

Principal Reduction Is Possible Because Severely Underwater PLS Loans Are Worth Less Than Homes - The unpaid principal balance of Fannie Mae's investments in PLS was $33.2 billion as of September 30, 2012, of which $29.1 billion was *rated below investment grade.*[2] Fannie Mae has calculated that the fair market value of their PLS investment at $21.1 billion. They have already recognized a $12 billion loss. PLS securities are junk bonds because the housing values that supported the bonds collapsed. This means that PLS loans in these securities have an average market value of 63 cents on the dollar. Assuming an average loan to value ratio of 120% suggests that *the average PLS loan in the Fannie Mae portfolio is worth 80% of home value.*

Inability to Rely on Industry Participants and Existing Programs – It is generally agreed that existing mortgage relief programs and existing industry participants cannot help with loans locked up in private securitization trusts. Indeed, industry participants like SIFMA have previously encouraged government to buy loans

[2] Fannie Mae 10Q, Q3 2012

out of securitization trusts.[3] Similarly, the American Securitization Forum has testified to Congress that the "seismic economic challenges" of the housing market are simply "too great for purely private loan modification solutions" to work, and that expanded government action, including purchasing loans from securitization trusts at less than face value, can be effective in halting "foreclosures that commercial and contractual arrangements cannot prevent."[4] The industry's sudden change and opposition to the JPA's purchasing loans from private securitization trusts shows that they cannot be relied on to assist homeowners in the county.

Community Action to Restore Equity and Stability ("CARES") -- MRP suggests that the JPA take direct action to purchase and resolve local PLS loans by engaging us and implementing the CARES program, which would operate as follows.

The Role of Mortgage Resolution Partners - MRP is an independent community advisory firm working with the not for profit coalition, Providing Local Solutions for Communities (www.plsforcommunities.org). MRP clients are local governments who may or may not proceed as we advise. MRP works exclusively for cities and counties. MRP is not a hedge fund, a private equity firm or a mortgage bank; we are an advisor on the side of the community. We are currently under contract and offer our services (including to the JPA) at no cost to taxpayers or homeowners.

Delinquent and Current Mortgages – MRP advises cities to include *both* current and delinquent mortgage loans in their programs and to focus on underwater loans in private label securitization trusts, which are managed by servicers and trustees.

Homeowner Choice – A homeowner who fits into this population would only participate he chooses to do so.

Good Faith Negotiations with Loan Holders – Our client cities will offer to enter into good faith negotiations to purchase the mortgages from the trusts by contacting their designees, the mortgage servicers. These negotiations should be practical and efficient because about 25 servicers account for 95% of all loans in private securitizations. If they cannot agree on the terms of a sale then the city may consider further action to acquire the mortgages, including eminent domain. This is up to the city.

No Administrative Burden – The city will buy the mortgage and own it briefly, typically less than 60 days, before it is paid off. While the city owns the mortgage the homeowner will continue to send payments to the same servicer, if the servicer agrees to continue in that role.

---

[3] http://www.sifma.org/news/news.aspx?id=8912.

[4] See Deutsch, "Private Sector Cooperation with Mortgage Modifications – Ensuring that Investors, Servicers and Lenders Provide Real Help for Troubled Homeowners," http://archives.financialservices.house.gov/hearing110/deutsch_-_asf.pdf.

Funding Not a General Obligation – Funds to acquire the mortgage will be provided by a third party Funder, not MRP. Existing investors in the securitization trusts will have the opportunity to provide the funding to the city. The Funder will advance expenses of the program, advance the funds required to purchase the mortgages, and take the risk that the mortgages cannot be resolved. If the transactions described below for dealing with a mortgage are not successful, the Funder will not receive reimbursement of the expenses, or a return of the advance, or a return on its investment for that mortgage. The Funder will have only the mortgages as collateral for the money advanced to acquire them. *The city will have no other obligation whatsoever as to repayment of money provided to purchase the mortgages, and proceeds from payments and refinances of the mortgages will be used to repay the Funder and to pay program costs.*

Funder Cash Flows –

1. The Funder will make the following investments:

    a. **The cost to educate** underwater PLS homeowners in each city that that has engaged MRP. The education process must be approved by each city before it commences. At the end of the education process homeowners can decide whether or not to participate in the Program and the City can decide whether or not to instruct MRP to negotiate with loan holders to acquire the underwater PLS mortgages of homeowners wishing to proceed.
    b. **Any costs incurred by the city** in the administration of the Program, including legal costs.
    c. **A non-recourse loan to the city** equal to the cost of the underwater PLS mortgages acquired by the city after good faith negotiations with loan holders.
    d. **MRP's advisory fee** of $4,500 for each underwater PLS loan acquired by the city. This is the same fee that is paid by the government to mortgage servicers for a successful Home Affordable Modification Program resolution.
    e. **The mortgage servicing fees** paid to the servicer after the loan is acquired by the city and before it is successfully resolved.
    f. **Program reserves** that the city deems necessary to cover any program risks to the city. The city will retain any reserves remaining upon program completion.

2. If the acquired loan is successfully resolved per the methods described below, leaving the homeowner in their home, then the Funder will receive:

    a. Any mortgage payments made by the homeowner after the loan is acquired by the city and before it is successfully resolved.
    b. Reimbursement of costs advanced by the Funder.
    c. Return of of the amount loaned to the city to acquire the underwater PLS mortgage.
    d. A return on the Funder's investments that is acceptable to the Funder and the city.

3. On a date agreed to by the city and the Funder, if the acquired underwater PLS mortgage is not successfully resolved per the methods described below the acquired underwater PLS loan will be assigned to the Funder in full satisfaction of the amount of the loan to the city used to acquire the underwater PLS mortgage. Again, the city will have no other obligation whatsoever to repay funding provided to purchase the mortgages or to pay program costs.

Realtors Advise Homeowners – There are two methods of resolution of the underwater mortgage:

1. If the homeowner does not qualify for a refinance and is in danger of foreclosure and loss of ownership but qualifies for a lease, then the homeowner may sell the home to an investor arranged for by MRP and approved by the city or arranged by a Realtor. At the same time he enters into a leases of his home. The lease includes an option for the homeowner/lessor to repurchase the home in the future, when his circumstances improve.

    - This sale and leaseback completely satisfies the existing lien.
    - The servicer will not report this as a derogatory credit item.
    - Congress recently extended relief from tax on mortgage debt forgiveness until December 31, 2013.
    - Rents and other lease terms will be at market rates acceptable to the city and the homeowner.
    - A portion of rents will be credited to any future repurchase of the home by the homeowner/lessor who will have a three-year option to purchase.
    - *MRP and the city require that a local, approved Realtor chosen by the homeowner advise and represent them in this transaction.* The scope of the Realtor's representation will include negotiating the lease terms.
    - The Buyer will pay the Realtor an amount equal to 2.5% of the home's value.
    - The program will also require the seller to use a Realtor if and when the lessee repurchases the home.
    - Remaining proceeds from the sale of the home will be used to repay the Funder.

2. If the homeowner qualifies for a refinance then:

    - Since the city owns the acquired mortgage it is able to reduce the required payoff amount on the acquired mortgage.
    - The payoff amount will be equal to the cost of the acquired mortgage plus program costs described above.
    - The city will provide the homeowner a letter that the homeowner may use to notify any city-approved lender of the reduced payoff amount on the existing loan.
    - The refinance lender will process and close the refinance loan and refinance proceeds net of any costs of the refinance will be sent to the Funder in satisfaction of the city’s note.
    - The homeowner does not pay any fees to refinance at market interest rates at

the time the refinance mortgage is closed.
- The servicer will not report this short refinance as a derogatory credit item.
- Congress recently extended relief from tax on mortgage debt forgiveness until December 31, 2013.

We share with local officials, community groups and Realtors the goals of improving our local communities, keeping homeowners in their homes, and providing professional representation to our neighbors who find themselves underwater.

We look forward to the opportunity to respond formally to a Request for Qualification.

Best regards,

Graham Williams
Chief Executive Officer
Mortgage Resolution Partners LLC